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FM AMCONSUL CHENNAI
TO RUEHC/SECSTATE WASHDC 8144
INFO RUEHNE/AMEMBASSY NEW DELHI 1624
RUEHBI/AMCONSUL MUMBAI 4747
RUEHCI/AMCONSUL CALCUTTA 0494
RUEHLM/AMEMBASSY COLOMBO 1198
RUEHKA/AMEMBASSY DHAKA 0506
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UNCLAS SECTION 01 OF 02 CHENNAI 000846

SIPDIS

SENSITIVE

SIPDIS

DEPT FOR EB
USDOC FOR MAC/ANESA/OSE/ASTREN/LDROCKER
USDOC FOR TD/AS/AC/BLOPP
USDA FOR FAS/LBLUM

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ETRD](#) [EAGR](#) [EIND](#) [IN](#)

SUBJECT: BOOM TIMES FOR SOUTH INDIAN COTTON MILLS

11. SUMMARY: (U) The cotton textile industry in south India is in the midst of a boom as international demand continues to grow for all categories of Indian cotton products. The spurt in demand, attributed to low production costs, internationally acceptable levels of quality and the removal of quotas, has spurred feverish expansion of capacity. Cotton cultivation in south India has kept pace with the increase in production, causing a drop in imports of U.S. cotton. Knowledge and experience in brand development is currently lacking among Indian companies in this industry, and presents opportunities for U.S. businesses with these skills. END SUMMARY

REMOVAL OF QUOTA RESTRICTIONS CONTRIBUTES TO THE BOOM

12. (U) The cotton industry in South India is in the midst of a boom thanks to the removal of WTO quota restrictions that had been established during the Uruguay round of trade negotiations in 1994, relatively low production costs and improved quality standards that now meet global market requirements. The South India Mills Association (SIMA) reports that production of yarn in the region increased by 60 percent in the first quarter of 2006 compared with the previous year. Vasantha Kumar, the Joint Director of the Apparel Export Promotion Council, told Post that the value of garment exports from the Coimbatore region in west-central Tamil Nadu had increased from \$2 million in the first quarter of 2005 to \$36 million during the same period in 2006.

SCALING UP TO SURVIVE

13. (U) Expanding capacity has been the common theme in all textile industry segments. The Government of India sponsored Technology Upgradation Fund Scheme (TUFS), has enabled producers to secure loans at an interest rate of 3 percent compared with prevailing rates of 7 to 12 percent, which has facilitated expansion significantly. SIMA former Chairman Vijay Venkataswamy told Post that he expected 1.5 million spindles to be added in 2006-07. Almost all of the additional capacity will be of the shuttle-less variety, which produces a higher quality

product. P.V. Ramaswamy, Chief Executive, SIMA says that mill owners with access to capital now invest in mills with over 25,000 spindles rather than those with 10,000 spindles as was the case five years ago when industrial policy favored small producers. Ramaswamy said small operations were no longer viable in the new environment.

CHINESE TEXTILE MACHINERY MANUFACTURERS CASH IN

¶4. (U) Local producers of textile machinery have been unable to meet demand for new equipment. Lakshmi Machine Works, one of the largest local manufacturers of textile machinery, reports a two year backlog of orders. South Indian textile entrepreneurs have turned to manufacturers in China and Taiwan to source machinery. China Texmatech Company, in particular, has benefited and reportedly secured orders for 50,000 spindles in the Coimbatore area alone during the International Technology and Machinery Expo held in March 2006. The company has now set up a liaison office in Coimbatore to provide after-sales services to its customers.

INCREASED PRODUCTIVITY SHRINKS US COTTON EXPORTS

¶5. (U) Cotton farmers in Tamil Nadu have kept pace with the increase in textile production. Use of genetically modified seeds and adoption of better post-harvest practices have been the main factors in increasing cotton production, K.N. Viswanathan, Secretary, The South India Cotton Association, told Post. The crop year 2004-2005

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saw a bumper cotton crop in India with production 10 to 15 percent above historical levels. As a result, imports of the upland variety of cotton from the U.S. dropped sharply since Indian cotton had a 7 cents per bale price advantage over the U.S. product. Viswanathan said that long-stapled cotton continues to be imported from the U.S. but in much smaller quantities when compared to imports from Egypt. Purchases of long-stapled U.S. cotton, he said, were made only when the importer of a finished product specified that the U.S. variety be used.

BUILDING GLOBAL BRANDS - OPPORTUNITY FOR US BUSINESS

¶6. COMMENT: (SBU) At this point, the Indian cotton industry lacks the knowledge and skills to establish and maintain brands in the global market. This presents opportunities for U.S. businesses that possess such skills. South Indian textile companies are currently seeking western talent that can conceptualize, launch and build brands that will enable Indian cotton products to move up the value chain, K.G. Balakrishnan of K.G. Denim told Post. His company launched its own "Trigger" brand of jeans that did well in the Indian market but made little headway in the West. His company continues to do job work for international brands like Wrangler and J.C. Penny. But having a global brand of his own is his dream, Balakrishnan told Post, and it is something that he plans to invest in. END COMMENT.

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